

Statement of the Honorable Michael G. Oxley
Chairman, Subcommittee on Finance and Hazardous Materials
Before the
Subcommittee on Finance and Hazardous Materials
Hearing on Financial Services Reform: "A Two Way Street" and Functional Regulation
May 1, 1997

Today we begin a series of hearings on one of the most significant issues faced by financial institutions and the people they serve: reforming the Depression-Era laws that govern financial services.

This first hearing will focus on two of the fundamental principles underlying the need for financial services reform: providing for fair competition and effective regulation. Competition is essential to bringing investors and consumers the best products and choices in our free market society. And the regulations that govern our financial markets must keep pace with the rapid evolution of those markets.

The Glass-Steagall Act is a prime candidate for reexamination.

Many observers believe that the restrictions imposed by the Glass-Steagall Act raise consumers' costs, limit their returns, and put U.S. financial institutions at a disadvantage to their foreign counterparts, which generally are not subject to regulations mandating a division between commercial and investment banking.

Congress enacted the Glass-Steagall Act following the stock market crash of 1929 to ensure that depositors would never again be faced with the specter of losing their life savings as a result of banks engaging in speculative stock activity. The financial services industry has changed significantly in the decades since. Federal banking regulators have expansively interpreted the Act and have permitted banks to become increasingly involved in the securities business. Similarly, administrative actions by federal banking regulators, supported by decision* of the Supreme Court, have permitted banks to become increasingly engaged in the insurance business.

This has created a "one way street" that has raised concerns that banks are increasingly able to engage in the securities and insurance business, while securities and insurance firms cannot engage in the business of banking. Additionally, because banks are exempt from the relevant securities laws and are not subject to the same insurance regulation as their competitors in the insurance industry, this creates regulatory and competitive imbalances among these industries.

Today, twenty-eight percent of all mutual funds are advised by a bank. But banks are not subject to the provisions of the Investment Advisers Act, to which the advisers of the other

eighty percent of funds are subject. As more Americans grow to depend on mutual funds in planning their future, it becomes increasingly important to ensure that the regulations relating to those funds make sense.

Today we will explore how “functional regulation” would work to provide more effective regulation of the many different activities of financial institutions. I look forward to the testimony of our witnesses today, who will help us better understand the real-life impact of financial services regulation in today’s changing financial marketplace.

I look forward to working with my friend, Ranking Member Tom **Manton**, and the other members of this Subcommittee, as well as Chairman Bliley and Ranking Member John Dingell as we consider how best to bring about the much-needed reform of regulations governing our financial institutions.